Mission statement

A **mission statement** is a brief statement written by the business describing its purpose and its objectives and describes their vision.

Advantages

- Give a sense of purpose and direction
- Increase motivation
- Help stakeholders understand the aim of the business
- Informs the customer on what to expect

Disadvantages

- Can be unrealistic and optimistic
- Can demotivate employees
- Waste management time (better use of their time elsewhere)
- Can be vague and insincere
- Stakeholders may see it as a marketing tool

Ansoff Matrix

Market penetration is when growth is achieved by selling existing products into existing markets by promoting more regular purchase or finding new uses for the product.

Advantages of **Market penetration**

- Product has already been successful
- Potential revenue
- Least risky method
- Business knows the market and product well

Product development is when a business sells a new or modified product to existing markets

Advantages of **Product development**

- Plays to business strengths when there is high competition
- Emphasis on market research and innovation
- Make use of available customer base
- Might allow to make a unique product

Market penetration is when existing products are sold in new markets

Advantages of **Market development**

- Ability to sell to international markets
- Able to set up in location with support facilities
- Reposition in the market by selling to a different group of people

Diversification is when new products are developed for new markets

Advantages of **Diversification**

- Helps to spread risk
- Helps to venture into new markets
- Better opportunities for growth

Disadvantages of **Ansoff matrix**

- Oversimplifies the available options
- One of mane decision making tools
- Does not account for external factors such as competition

Porters Matrix

Porters matrix is a management tool used by businesses to achieve a competitive advantage.

Cost leadership is when a business tries to have the lowest possible cost in the industry

Advantages of **Cost leadership**

- Achieve high profits
- Increase chances of survival during rough times
- Help to raise capital for growth and investment

Differentiation is when a business develops a unique selling point for a product to gain a competitive advantage

Advantages of **Differentiation**

- Strong customer recognition
- Charge high price and gain high profit margins
- Greater customer loyalty

Disadvantages of **Differentiation**

- High cost of research and development
- High cost of marketing

Focus is when a business concentrates on providing a product or service to a narrowly defined market segment.

Advantages of **Focus**

- Allows to dominate market segment
- Create high loyalty and satisfaction
- Less competition and high profit margin

Disadvantages of **Focus**

- Need to be able to segment the market
- Significant market research to understand the needs and wants

Portfolio Analysis

Portfolio analysis is an analytical tool which assesses the potential of each product in light of its productivity, market share and distinct features.

	High market share	Low market share
High market growth	**Stars** Requires high investment May become cash cows	**Question marks** Consumes lots of cash with low returns
Low market growth	**Cash cows** Has a good return on investment Generate a lot of cash	**Dogs** May break-even Should be sold or diverted

Strategic and Tactical Decisions

Human resources is the part of the business responsible for recruiting, screening and training employees.
Physical resources are the tangible assets which are used in the business.
Financial resources are the tangible and intangible assets available to meet the businesses financial needs.

Strategic decisions

- Focus on the long term
- Often set by the board of directors
- Higher risk and uncertainty
- Significant investment of resources
- Difficult to change in the short term

Tactical decisions

- Focus on the short term
- Set by the management
- Low risk
- Limited resources invested
- Relatively easy to achieve with little financial cost

SWOT Analysis

SWOT analysis is an analytical tool used to help managers make complicated decisions. It analyses the strengths, weaknesses, opportunities and threats for a business.

Advantages

- Helps to build on strength
- Correct weaknesses
- Protect against external threats
- Make use of available opportunities
- Helps in setting objectives for strategic planning

Disadvantages

- Does not prioritise issues
- Does not provide solutions or alternatives
- Might not be useful at times
- Effectiveness depends on businesses ability to take action

PESTLE Analysis

PESTLE is a framework for assessing the key features of the external factors facing businesses such as political, economic, technological, social, legal and environmental factors.
Political factors is the extent to which the local and national environment is expected to influence the business.

- Governments stability and relationship with key trading partners
- Tax regulations
- Trade restrictions
- Fiscal policy

Economic factors is the extent to which the economic indicators are expected to affect business performance

- Stable prices
- Exchange rates
- Unemployment levels
- Stage of business cycle

Social factors is the extent to which the personal attitudes and values, as well as culture and demographics are expected to affect a business

- Education
- Ethics and religion
- Migration
- Population growth and demographics

Technological factors is the extent to which technological change and innovation is expected to impact the business.

- Research and development
- Distribution
- Quality of materials used
- Intellectual property

Legal factors is the extent to which the changes in the law and legislation is expected to impact the business

- Taxation
- Advertising regulations
- Health and safety regulations
- Employment regulations

Environmental factors is the extent to which the changes in attitude in government policies towards environmental protection is expected to impact the business

- Disposable materials
- Energy availability and cost
- Green infrastructure
- Changes in climate and weather patterns

Porters 5 forces

Porters 5 forces is a framework used to analyse the nature of the competition in a market.
Bargaining power of supplier analyses how much the supplier has power to influence the price of raw materials. When bargaining power is low, the business can get raw materials at lower prices.
Bargaining power of buyer analyses how much power the customers hold to influence the price of the finished product. When bargaining power is high, the price will be lower.
Threat of new entrants analyses the barriers to entry for a new business to enter the market.
Threat of substitutes analyses the likeliness of a product substitute being available in the market.

Industry rivalry analyses the competitiveness between firms who are already in the industry selling similar products.

Business growth

Reasons for **business growth**

- Owners, shareholders and management's decision
- Higher profitability and market share
- Achieve economies of scale

Advantages of **business growth**

1. Economies of scale is the fall in long run average cost due to increased scale of production

Internal economies of scale:

- Technical
- Purchasing
- Marketing
- Managerial
- Financial

External economies of scale

- Skilled labour force
- Speciality supplier
- Improved infrastructure

2.Increase market share and recognition

- Ability to set higher price
- Better customer loyalty
- Launch more new products

3.Profitability

- Demands for company share increase, driving share prices up, allowing to sell more shares to fund investment

4.Market power

- Ability to set own prices and control suppliers

Organic Growth

Organic growth is when a business achieves growth within a business, typically financed through retained profits of borrowing and makes use of own resources

Advantages

- Less risky
- Relatively cheaper
- Keep control
- Avoid diseconomies of scale

Disadvantages

- Slow growth
- Lack of access to resources
- Unable to be competitive
- Unable to fully exploit economies of scale

Inorganic Growth

Inorganic growth is the joining of two or more firms to make a much larger one. It makes use of mergers and takeovers.

Horizontal integration is when two businesses in the same stage of production joins together

Advantages of **horizontal integration**

- Rapid growth in market share
- Reduce competition
- Gain knowledge and expertise

Disadvantages of **horizontal integration**

- Diseconomies of scale
- Culture clashes
- Risk destroying shareholder value

Vertical integration is when two or more businesses in the same industry at different levels of production joins together

Advantages of **vertical integration**

- Reduce costs as middle man is eliminated
- Greater control over supplies
- Increases profit from next stage of production

Disadvantages of **vertical integration**

- Diseconomies of scale
- Culture clashes
- Little expertise in running new firm

Conglomerate integration occurs when two or more businesses in different industries join together

Advantages of **conglomerate integration**

- Reduces risks
- Access to new markets
- Increased value

Disadvantages of **conglomerate integration**

- Culture clashes
- Diseconomies of scale

Advantages of **inorganic growth**

- Fast growth
- Economies of scale
- Eliminate competition

Disadvantages of **inorganic growth**

- Regulatory intervention
- Drain on resources
- May lose customers

Quantitative Sales Forecasting

Quantitative sales forecasting is the prediction of future sales based on previous data.

Advantages

- Predict cashflow movements
- Plan supply and component orders for production
- Plan for correct level of staff
- Ensure capacity can meet predicted orders

Disadvantages

- Takes time to collect data
- Historical data may not predict future sales
- Accuracy depends on quality of data
- Extrapolation may be difficult in dynamic markets

Investment Appraisal

Payback period is used to calculate the time taken for a project to return back its initial investment

Advantages of **payback period**

- Easy to calculate and understand
- Helps if cashflow could have problems
- Useful when technology changes rapidly

Disadvantages of **payback period**

- Ignores cash flow after payback period is reached
- Time value of money is ignored
- Does not create a decision about the investment

Average rate of return looks at the average profit per year made by a project to see if it meets its targeted rate of return

Advantages of **ARR**

- Easy to calculate
- Takes into account return over its whole life
- Focus on profitability

Disadvantages of **ARR**

- Ignores timing of cashflow
- Ignores time value of money
- Since later years are included may not be as accurate as payback

Net present value measures in today’s money value a project's future cashflow

Advantages of **NPV**

- Takes into account time value of money
- Able to compare projects
- Considers time and arrival of cashflow

Disadvantages of **NPV**

- Complex to calculate
- Final results depend on the rate of discount used

Decision Tree

A **decision tree** is a mathematical model which is used to help a manager make decisions when faced with a choice

Advantages

- Calculate net gain of the project
- Compare the likeliness of each outcome
- Help to understand the costs and reward of each option
- Aid in planning and decision making

Disadvantages

- Takes skill to analyse data
- Based on predictions so data may not be accurate
- Time lag may make it less reliable

Contribution

Contribution is the amount if money left from sale after variable costs have been subtracted from revenue

Breakeven (units) = Fixed costs / contribution per unit
Profit ($) = Total contribution - fixed costs
Target profit (units) = (Fixed costs + target profit) / contribution per unit
Contribution margin = Contribution / sales x 100

Advantages

- Help in decision making
- Help in setting price
- Aid in calculating sales to meet a specific target

Corporate Culture

Corporate culture is the values, attitudes, meanings and norms shared by people within an organisation.

Strong culture is where factors such as attitudes, values and beliefs are easily recognisable and embedded in a way a business operates

Advantages of **strong culture**

- Increase motivation
- Lower labour turnover
- Speedier decision making due to lack of bureaucracy

Disadvantages of **strong culture**

- Creativity may be stifled if low level workers have to behave in a certain way
- Innovative ideas are risky and can lead to business failure

Weak culture is where it is difficult to identify the factors that form the culture of have a wide range of subcultures

Advantages of **weak culture**

- Roles and responsibility are clearly described
- Likely to be more successful in avoiding risky situations

Disadvantages of **weak culture**

- May be unsuited to dynamic markets
- Decrease labour productivity
- Policies may be too tight and may develop “them” and us”

Power culture
- Decision making is carried by a small number of powerful individuals
- Competitive atmosphere among workers for power
- Most communication is by personal contact

Role culture
- Power lies with job title rather than skills
- Difficult to adjust to rapidly changing markets
- Employees are expected to adhere to the rules and hierarchy

Task culture
- Decisions are made by teams with specific skills
- Power lies with task related skills
- Teams are created and dissolved

Person culture
- Individuals with experience and skill are brought together
- Have power to make own decision and work autonomously
- Reflect personal ambitions of people involved

Difficulties in changing culture
- Difficult to change strong culture
- Employees may be resistant to change
- Subcultures may exist

Advantages of changing culture
- Increased productivity
- Improve innovation and creativity
- Help to overcome a difficult challenge

Critical Path Analysis

Critical path analysis is a project-management technique that lays out all of the activities needed to complete a task, the time it will take to complete each activity and the relationships between the activities.

Advantages
- Identifies minimal completion time
- Improves efficiency
- Helps in decision making
- Aids in time management and planning

Limitations
- Estimate times used in network may be incorrect
- Changes sometimes occur during the project
- Resources may be inflexible

Shareholder vs Stakeholder approach

Shareholder approach
- Primarily responsible for interest of owners (shareholders)
- Decision is made on basis of shareholders

Stakeholder approach

- Helps a business to be more socially responsible
- Communicates effectively with stakeholders
- Minimise negative impact on shareholders whenever possible

Common interests

- Long term survival and profitability

Ethics

Ethics are the moral guidelines that govern good behaviour

Advantages

- Higher revenues
- Improve brand awareness and recognition
- Better employee motivation and recruitment

Disadvantages

- Practised by many business
- Increased costs

Financial Statements

Gross profit margins = gross profit / revenue x100

Long term financial structure of business

Balance of NCA to shareholder capital

Profit margin = net profit / revenue x100

Measures profit as a % of money used to generate it

ROCE = profit before tax / capital employed x100

Higher ROCE is good, but should also be stable.

Acid test ratio = (current assets - inventory) / current liabilities

Current ratio = current assets / current liabilities

Optimum is between 1.5**:**1 and 2**:**1

Fast moving products can operate below 1.5:1

Gearing = Non current liabilities / capital employed x100

Below 50% is low geared and is good

Above 50% is high geared which means business it too reliant on NCL

Limitations of **ratio analysis**

- Only able to compare similar businesses
- Accounts may have been window dressed and not reliable
- Snapshot may not represent the whole circumstance
- Qualitative factors such as inflation and interest rates are ignored

Human Resources

Labour productivity is the output per worker in a given period of times

Output /number of employees

Limitations of **labour productivity**

- Difficult to measure output in service sector
- Ignores quality of work
- Difficult when too many employees are involved in one unit of production

Labour turnover is the proportion of employees leaving a business

Number of employees leaving / average number of employees x100

Advantages of high **labour turnover**

- Fresh ideas and expertise
- Help to get rid of inexperienced staff
- Continue paying low wages

Disadvantages of high **labour turnover**

- Recruitment is costly
- Takes time for workers to familiarise
- Induction programmes are required

Labour retention is the number of employees who remain in a business over time

Number of staff remaining / average no of employees x100

Absenteeism is the number of employees who do not turn up for work and do not have a legitimate reason

Number of absent days / no of hours staff should have worked x100

Disadvantages of **high absenteeism**

- Need to pay sick leave
- Output may fall
- Develop absenteeism culture
- If additional employee is brought in, have to pay overtime

Employees share ownership

Increase motivation

Improve employee retention

More driven towards success of business

Consultation strategies

- **Pseudo consultation** (Managers make decision and informs employees)
- **Classical consultation** (Employees involved through representatives)
- **Integrative consultation** (Management and union discuss and make joint decisions)

Empowerment strategies

- Training
- Provide necessary resources for personal growth
- Handing over authority to make level decisions
- Inspire confidence
- Provide constructive feedback

Key Factors in Change

Internal causes

- Change in the size of business
- Poor business performance
- Change in ownership
- Business restructuring
- Transformative leadership

External causes

- Changes in market
- Changes in PESTLE environment

Resistance to change is caused by

Fear of the unknown
Disagreement on necessity
Lack of understanding
Fear of redundancy and fall in income

Contingency Planning

Contingency planning us the creation of plans for how the crisis may affect a business and minimising the impact of unexpected operation and returning to normalcy

Natural disaster

- Identify type of disaster
- - Assess potential extent of impact
- Estimate likeliness and magnitude
- Identify and implement measures to reduce risk

IT system failure

- Malware can lead to downtime and loss of data
- Data breach may be due to cyber attack
- Employees may be scammed into giving sensitive data

Loss of key staff

- Cause difficulties if unplanned
- Loss of experience and knowledge
- Reduce employee morale
- Potentially lose contracts with customers and suppliers

Risk mitigation

- Setup in locations less likely to experience natural hazards
- Construct buildings to building costs
- Organise backup power and secure computerised data

Business continuity is how a business will operate following an incident and how a business is expected to return to its normal operations

- Risk assessment
- Impact analysis
- Plan development
- Testing and training

Succession planning is identifying people who have the potential to take over key business roles in the future

- Identify characteristics a successor should have
- Decide how to choose a successor
- Make decision and communicate it
- Implement training and preparation plan

Advantages of **contingency planning**

- Identify future uncertainties and potential risks
- Teach managers how a crisis may occur and affect the business
- Understand causes and how to manage

Limitations of **contingency planning**

- Opportunity cost of time and resources; needs to be regularly tested and updated
- Cannot cover every eventuality
- Other investments may be more important than contingency planning